

Message Text

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PAGE 01 MANILA 10107 01 OF 04 160503Z

ACTION TRSE-00

INFO OCT-01 EA-10 ISO-00 SP-02 ICA-11 AID-05 EB-08
NSC-05 SS-15 STR-07 OMB-01 CEA-01 CIAE-00 COME-00
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R 160357Z JUN 78

FM AMEMBASSY MANILA

TO SECSTATE WASHDC 7246

INFO AMEMBASSY KUALA LUMPUR

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USADB

FOR NAC AGENCIES

EO 11652:N/A

TAGS:EAID, EFIN, ADB

SUBJECT: PROPOSED LOAN - TRENGGANU TENGAH TOWNSHIP
DEVELOPMENT PROJECT

SUMMARY: ADB MANAGEMENT PROPOSING 16.0 MILLION DOLLARS
ORDINARY CAPITAL LOAN TO MALAYSIA FOR TRENGGANU TENGAH
TOWNSHIP DEVELOPMENT PROJECT. OBJECTIVE OF PROJECT IS
REDUCTION OF REGIONAL ECONOMIC AND SOCIAL DISPARITIES AND
INDUCEMENT OF MIGRATION FROM RELATIVELY LOW PRODUCTIVITY
OF POORER REGION BY PROVIDING IMPROVED INCOMES AND LIVING
CONDITIONS TO DISADVANTAGED POPULATION GROUPS. THE
PROJECT FORMS PART OF THE ON-GOING TRENGGANU TENGAH
DEVELOPMENT SCHEME AND ESSENTIALLY CONSISTS OF SETTLEMENT-
RELATED INFRASTRUCTURE OF FIVE NEW TOWNS IN THE AREA AND
PROVISION OF PROFESSIONAL STAFF SERVICES FOR STRENGTHENING
EXECUTING AGENCY. THE PROJECT COMPONENTS ARE (I) TOWN
DEVELOPMENT WORKS; (II) REGIONAL WATER SUPPLY; (III) LOW
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PAGE 02 MANILA 10107 01 OF 04 160503Z

INCOME GROUP HOUSING AND COMMERCIAL BUILDINGS; AND
(IV) PROVISION OF FIVE PROFESSIONAL STAFF FOR OVER TWO
YEARS TO EXECUTING AGENCY. PROJECT APPEARS TECHNICALLY
AND ECONOMICALLY FEASIBLE, THEREFORE USADB RECOMMENDS
FAVORABLE NAC ACTION. END SUMMARY.

1. ADB DOC R49-78 WITH ATTACHMENTS DESCRIBING PROPOSED

LOAN POUCHES ADDRESSEES JUNE 8. BOARD CONSIDERATION
SCHEDULED JUNE 29.

2. ADB MANAGEMENT PROPOSING 16.0 MILLION DOLLARS LOAN
FROM ORDINARY CAPITAL RESOURCES TO MALAYSIA FOR INTEGRATED
REGIONAL DEVELOPMENT PROJECT. PROPOSED TERMS ARE 20 YEARS
AMORTIZATION PERIOD INCLUDING 4 YEARS GRACE AT 7.70 PERCENT
INTEREST PER ANNUM. TOTAL COST OF PROJECT IS 40.56
MILLION DOLLARS, GOVERNMENT OF MALAYSIA TO BE BORROWER.
TEMBAGA KEMAYUAN TRENGGANU TENGAH (KETENGAH) WILL BE
PRINCIPAL EXECUTING AGENCY.

3. REDUCTION OF ECONOMIC AND SOCIAL DISPARITIES BETWEEN
POPULATION GROUPS AND REDRESSING REGIONAL IMBALANCES ARE
AMONG PRINCIPAL OBJECTIVES OF THE GOVT'S NEW ECONOMIC
POLICY (NEP). REALIZATION OF THESE OBJECTIVES IS INTER-
ALIA PURSUED THROUGH LARGE-SCALE DEVELOPMENT OF UNDER-
UTILIZED REGIONS AND THEIR SETTLEMENT WITH DISADVANTAGED
POPULATION GROUPS. SUCH PROGRAMS INCLUDE THOSE FOR
JOHORE TENGGARA, PAHANG TENGGARA AND TRENGGANU TENGAH ON
LESS DEVELOPED EAST COAST OF PENINSULAR MALAYSIA. FORESTRY
AND AGRICULTURE ARE TO BE MAIN SOURCES OF INCOME AND
EMPLOYMENT INITIALLY BUT ARE TO BE JOINED BY INDUSTRY AND
TERTIARY SECTORS AT EARLY STAGE TO FACILITATE SUSTAINED
GROWTH AND EQUALITY OF OPPORTUNITY WITH EXISTING URBAN
CENTERS PRIMARILY LOCATED ON WEST COAST.
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PAGE 03 MANILA 10107 01 OF 04 160503Z

4. IN CONTRAST TO EARLIER LAND SETTLEMENT PROGRAMS OF
THE GOVT WHICH PROVIDED FOR SETTLEMENT OF MIGRANTS ON
THEIR HOLDINGS OR IN VILLAGES, URBANIZATION OF SETTLEMENT
HAS BY NOW BECOME THE ACCEPTED CONCEPT FOR REGIONAL
DEVELOPMENT AND SETTLEMENT PROGRAMS IN MALAYSIA AND IS
CONSIDERED ESSENTIAL FOR ACHIEVING THE OBJECTIVES OF NEP.
THE CONCEPT OF URBANIZATION HAS BEEN ADOPTED DESPITE THE
IMPLIED DISADVANTAGE THAT THE FORESTRY AND AGRICULTURAL
WORKERS (INCLUDING SELF-EMPLOYED) HAVE TO COMMUTE TO THEIR
WORK SITES. THIS DISADVANTAGE IS ACCEPTED IN THE INTEREST
OF ACHIEVING LONGER TERM ECONOMIC AND SOCIAL BENEFITS,
BECAUSE (I) ONLY SETTLEMENTS ABOVE A CERTAIN SIZE ARE
ABLE TO AVOID SECOND-GENERATION PROBLEMS AND CAN PROVIDE
EMPLOYMENT FOR MOST OF ITS EXPANDING LABOR FORCE IN
SECONDARY AND TERTIARY SECTORS; (II) HIGHER LEVELS AND A
WIDER RANGE OF ECONOMIC AND SOCIAL SERVICES AND AMENITIES
CAN BE PROVIDED AT LOWER COSTS PER FAMILY, INCLUDING PIPED
WATER, ELECTRICITY, HEALTH, EDUCATION, SPORTS AND CULTURAL
FACILITIES, ETC.; (III) PROVIDING SERVICES AND FACILITIES
FOR COMBINED PRIMARY AND NON-PRIMARY POPULATIONS IS
CHEAPER THAN PROVIDING THEM SEPARATELY; AND (IV) ONLY BY

CREATING NEW URBAN SETTLEMENTS WILL IT BE POSSIBLE TO
REDUCE MIGRATION TO ALREADY OVERCROWDED CITIES AND TO
REDRESS IMBALANCES IN THE GROWTH OF VARIOUS REGIONS.

5. THE TRENGGANU TENGAH DEVELOPMENT SCHEME (THE SCHEME),
COVERS AN AREA OF ABOUT 1.1 MILLION ACRES IN THE STATE
OF TRENGGANU ON THE EAST COAST OF PENINSULAR MALAYSIA.
THOUGH ENDOWED WITH SUBSTANTIAL NATURAL RESOURCES,
TRENGGANU IS ONE OF THE LEAST DEVELOPED STATES IN MALAYSIA;
ITS PER CAPITA GDP IN 1975 WAS THE SECOND LOWEST IN THE
COUNTRY AND 60 PERCENT OF THE NATIONAL AVERAGE. THE
SCHEME IS BASED ON A REGIONAL PLANNING AND DEVELOPMENT

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PAGE 01 MANILA 10107 02 OF 04 160620Z
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LIMITED OFFICIAL USE SECTION 02 OF 04 MANILA 10107

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FOR NAC AGENCIES

MASTER PLAN PREPARED IN 1974 BY TWO BRITISH CONSULTING
FIRMS UNDER COLOMBO PLAN ASSISTANCE. THE SCHEME INVOLVES
CLEARANCE OF FOREST LANDS FOR LARGE SCALE FARMING; LOGGING;
ESTABLISHMENT OF INDUSTRIAL UNITS FOR PROCESSING OF
AGRICULTURAL AND FORESTRY PRODUCE; AND THE CONSTRUCTION OF
A REGIONAL ROAD AND FEEDER ROAD NETWORK AND OF SETTLEMENT-
RELATED INFRASTRUCTURE. IN NOVEMBER 1975, THE BANK
APPROVED A LOAN OF 23.7 MILLION DOLLARS TO FINANCE THE
CONSTRUCTION OF A TRUNK ROAD FROM JERANGAU TO JABOR AND
THE ASSOCIATED FEEDER ROAD NETWORK; A PORTION OF THE LOAN
IS ALSO INTENDED FOR STRENGTHENING THE TRENGGANU TENGAH
DEVELOPMENT AUTHORITY.

6. THE PROPOSED PROJECT IS A CONTINUATION OF THE BANK'S PARTICIPATION IN THE TRENGGANU TENGAH REGIONAL DEVELOPMENT SCHEME AND IS DESIGNED TO MEET THE PRIORITY NEEDS, AT THIS STAGE, OF THE OVERALL SCHEME. THE COMPONENTS COMPRISE THE FIRST PHASE OF THE SETTLEMENT-RELATED INFRASTRUCTURE LIMITED OFFICIAL USE

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PAGE 02 MANILA 10107 02 OF 04 160620Z

REQUIRED BY 1980 IN THE FIVE TOWNS. THE IMPLEMENTATION OF THE DEVELOPMENT SCHEME HAS REACHED A STAGE WHEN A PERMANENT LABOR FORCE WILL BE NEEDED; AND NECESSARY FACILITIES HAVE TO BE PROVIDED TO ATTRACT THE LABOR FORCE PRIMARILY FROM OUTSIDE THE REGION. THE PROPOSED PROJECT, THEREFORE, COMPRISES SETTLEMENT-RELATED INFRASTRUCTURE (INCLUDING HOUSING FOR LOW INCOME GROUP (LIG) FAMILIES) IN FIVE TOWNS. IT ALSO PROVIDES FOR STRENGTHENING THE IMPLEMENTING CAPABILITIES OF KETENGAH WHOSE FUNCTIONS ARE BECOMING MORE VARIED AND RESPONSIBILITIES HEAVIER.

7. THE TOWN DEVELOPMENT PART OF THE PROJECT IS DESIGNED TO MEET THE FIRST PHASE REQUIREMENTS OF THE FIVE TOWNS UP TO 1980. THE PLANNING AND ENGINEERING STANDARDS ADOPTED ARE MODEST AND HAVE BEEN AIMED AT REDUCING COST IN THE INITIAL PHASE, WITH SCOPE FOR UPGRADING IN FUTURE TO HIGHER STANDARDS. THE COST OF THE TOWN DEVELOPMENT WORKS IS ESTIMATED AT 19.62 MILLION DOLLARS, OUT OF WHICH 6.56 MILLION DOLLARS IS ESTIMATED TO BE THE DIRECT AND INDIRECT FOREIGN CURRENCY COST. THE REGIONAL WATER SUPPLY COMPONENT PROVIDES FOR THE CONSTRUCTION OF FOUR INDEPENDENT WATER SYSTEMS TO MEET THE POTABLE WATER REQUIREMENTS OF THE FIVE NEW TOWNS UP TO 1990. WATER WILL BE PUMPED FROM THE RIVER AND TREATED BEFORE DISTRIBUTION. THE COST OF THIS PART OF THE PROJECT IS ESTIMATED AT 7.26 MILLION DOLLARS, WITH A FOREIGN CURRENCY COMPONENT OF 3.65 MILLION DOLLARS. THE HOUSING AND COMMERCIAL BUILDINGS COMPONENT INVOLVES CONSTRUCTION OF HOUSES FOR LOW-INCOME GROUP FAMILIES AND COMMERCIAL BUILDINGS. THE PROVISION OF HOUSES FOR WORKERS AND SETTLERS IS ESSENTIAL IN ORDER TO INDUCE A MIGRANT LABOR FORCE INTO THE NEW TOWNS. THE SHOP-HOUSES AND STALLS WILL PROVIDE THE INFRASTRUCTURE FOR A NUCLEUS OF COMMERCIAL FACILITIES IN THE NEW TOWNS AND WILL ENABLE THE RESIDENTS LIMITED OFFICIAL USE

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PAGE 03 MANILA 10107 02 OF 04 160620Z

TO OBTAIN THEIR DAILY NECESSITIES AND NEEDS FROM WITHIN THE TOWN. THE COST OF THE HOUSING IS ESTIMATED AT 4.11 MILLION DOLLARS, INCLUDING A FOREIGN CURRENCY COMPONENT

OF 0.94 MILLION DOLLARS; AND OF THE COMMERCIAL BUILDINGS
OF 1.15 MILLION DOLLARS, INCLUDING FOREIGN CURRENCY COST
OF 0.33 MILLION DOLLARS.

8. WITH THE PROGRESS ACHIEVED IN THE IMPLEMENTATION OF THE
DEVELOPMENT SCHEME, KETENGAH'S ACTIVITIES, FUNCTIONS AND
RESPONSIBILITIES ARE FAST EXPANDING AND WILL TAKE ON A
NEW DIMENSION AS THE NEW TOWNSHIPS ARE CONSTRUCTED AND
BECOME OPERATIONAL. KETENGAH WILL, THEREFORE, CONTINUE
TO REQUIRE THE SERVICES OF SOME OUTSIDE PROFESSIONAL STAFF
TO STRENGTHEN ITS CAPABILITIES BEYOND THE SERVICE PERIOD
OF THE STAFF CONSULTANTS CURRENTLY PROVIDED UNDER THE
JERANGAU-JABOR DEVELOPMENT ROAD PROJECT. UNDER THE
PROPOSED PROJECT COMPONENT, KETENGAH WILL BE PROVIDED WITH
THE SERVICES OF FIVE PROFESSIONAL STAFF IN THE FIELDS OF
ENGINEERING, FINANCE AND REGIONAL PLANNING: THREE
CONSULTANTS FOR TWO YEARS EACH AND TWO FOR A YEAR EACH.
THE COST OF THIS COMPONENT IS ESTIMATED AT 0.87 MILLION
DOLLARS, INCLUDING A FOREIGN CURRENCY COST OF 0.75 MILLION
DOLLARS.

9. THE EXECUTING AGENCY FOR THE PROJECT - EXCEPT PART II:
REGIONAL WATER SUPPLY - WILL BE KETANGAH. PART II OF THE
PROJECT WILL BE EXECUTED BY THE PUBLIC WORKS DEPARTMENT
(PWD) OF THE MINISTRY OF WORKS AND UTILITIES.

10. KETENGAH, THE DEVELOPMENT AUTHORITY FOR THE TRENGGANU
TENGAH REGION, PLAYS AN ACTIVE PART IN RESOURCE
DEVELOPMENT, THE ESTABLISHMENT OF INDUSTRIES AND THE
DEVELOPMENT OF REGIONAL INFRASTRUCTURE. KETENGAH IS ALSO
RESPONSIBLE FOR DEVELOPMENT OF NEW TOWNS IN THE REGION
INCLUDING THEIR PLANNING, PROVISION OF TOWN INFRASTRUCTURE
HOUSING AND COMMERCIAL BUILDINGS AND PREPARATION OF
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PAGE 04 MANILA 10107 02 OF 04 160620Z

INDUSTRIAL ESTATES. THE DEVELOPMENT OF CERTAIN REGIONAL
INFRASTRUCTURE FACILITIES IS HOWEVER, THE RESPONSIBILITY

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PAGE 01 MANILA 10107 03 OF 04 160643Z
ACTION TRSE-00

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NSC-05 SS-15 STR-07 OMB-01 CEA-01 CIAE-00 COME-00
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OF ESTABLISHED GOVERNMENT AGENCIES, E.G. THE PUBLIC WORKS
DEPARTMENT (PWD) OF THE MINISTRY OF WORKS AND UTILITIES
FOR WATER SUPPLY, AND THE NATIONAL ELECTRICITY BOARD FOR
ELECTRICITY.

11. WITH REGARD TO THE SERVICES OF FIVE PROFESSIONAL STAFF
FOR KETENGAH, THE GOVERNMENT HAS REQUESTED BANK'S APPROVAL
FOR RETAINING THE SERVICES OF FIVE OUT OF THE EIGHT
EXISTING EXPERTS. THE BANK CONSIDERS THIS REQUEST
ACCEPTABLE PROVIDED THAT KETENGAH IS ABLE TO RETAIN THE
SERVICES OF THOSE EXPERTS WHO ARE NOW IN THE FIELD AND ARE
FAMILIAR WITH THE SCHEME; THIS WOULD ENSURE CONTINUITY
AND EXPEDITIOUS AVAILABILITY OF THE REQUIRED SERVICES FOR
KETENGAH. THESE EXPERTS WERE ORIGINALLY RECRUITED IN
ACCORDANCE WITH THE BANK'S GUIDELINES ON USES OF
CONSULTANTS. IF, HOWEVER, THE SERVICES OF THE SAME
EXPERTS CANNOT BE CONTINUED, NEW EXPERTS WILL BE RECRUITED
IN ACCORDANCE WITH THE BANK'S GUIDELINES ON USES OF
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PAGE 02 MANILA 10107 03 OF 04 160643Z

CONSULTANTS.

12. PROCUREMENT UNDER THE PROPOSED LOAN WILL BE UNDERTAKEN
IN ACCORDANCE WITH THE BANK'S GUIDELINES ON PROCUREMENT.
CIVIL WORKS CONTRACTS (OTHER THAN THOSE RELATING TO JUNGLE
CLEARANCE, LANDSCAPING AND COMMUNITY ACCESS PATHS UNDER
PART I (TOWN DEVELOPMENT) AND THOSE RELATING TO PART III
(LOW INCOME HOUSING AND COMMERCIAL BUILDING) OF THE
PROJECT) ESTIMATED TO COST THE EQUIVALENT OF 200,000
DOLLARS OR MORE AND EACH SUPPLY CONTRACT FOR EQUIPMENT OR
MATERIALS ESTIMATED TO COST THE EQUIVALENT OF 100,000
DOLLARS OR MORE WILL BE AWARDED ON THE BASIS OF

INTERNATIONAL COMPETITIVE BIDDING. AT THE REQUEST OF THE BORROWER, THE CIVIL WORKS FOR JUNGLE CLEARANCE, LANDSCAPING, AND COMMUNITY ACCESS PATHS UNDER PART I AND CIVIL WORKS FOR PART III WILL BE CARRIED OUT BY LOCAL CONTRACTORS SELECTED ON THE BASIS OF DOMESTIC PROCUREMENT PROCEDURE SATISFACTORY TO THE BANK. ACCORDING TO ADB, A NUMBER OF LOCAL CONTRACTORS ARE AVAILABLE WITH EXPERIENCE AND ADEQUATE CAPACITY TO UNDERTAKE THE TYPE OF CONSTRUCTION WORK INVOLVED; ALSO, THE NATURE OF THE WORK INVOLVED IS SUCH AS WOULD MAKE IT UNATTRACTIVE TO FOREIGN CONTRACTORS. ALL CIVIL WORKS CONTRACTS (OTHER THAN THOSE RELATING TO JUNGLE CLEARANCE, LANDSCAPING AND COMMUNITY ACCESS PATHS UNDER PART I OF THE PROJECT AND THOSE RELATING TO PART III OF THE PROJECT) ESTIMATED TO COST LESS THAN THE EQUIVALENT OF 200,000 DOLLARS AND EACH SUPPLY CONTRACT FOR EQUIPMENT OR MATERIALS ESTIMATED TO COST LESS THAN THE EQUIVALENT OF 100,000 DOLLARS WILL BE AWARDED ON THE BASIS OF INTERNATIONAL SHOPPING.

13. THE PROPOSED PROJECT IS AN INTEGRAL PART OF THE TRENGGANU TENGAH DEVELOPMENT SCHEME WHICH IS ACCORDED HIGH LIMITED OFFICIAL USE

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PAGE 03 MANILA 10107 03 OF 04 160643Z

PRIORITY UNDER THE THIRD PLAN, AND IS DESIGNED TO MEET THE PRIORITY NEEDS AT THIS STAGE OF THE OVERALL SCHEME. THE SCHEME IS CONSIDERED NATIONAL IN CHARACTER SINCE IT WILL INDUCE MIGRATION INTO THE VAST RESOURCE-RICH TRENGGANU TENGAH AREA BOTH FROM WITHIN THE STATE AND FROM OTHER STATES IN PENINSULAR MALAYSIA AND WILL PROVIDE OPPORTUNITIES FOR IMPROVEMENT OF INCOMES AND LIVING CONDITIONS OF DISADVANTAGED POPULATION GROUPS. AT THE SAME TIME, IT WILL PLAY A VITAL ROLE IN FACILITATING THE DEVELOPMENT OF THE RURAL ECONOMY IN THE STATE THROUGH THE ESTABLISHMENT OF NEW GROWTH CENTERS AND DEVELOPMENT OF RESOURCE-BASED INDUSTRIES.

14. IT IS ENVISAGED THAT BY 1990 THE POPULATION OF THE FIVE TOWNS UNDER THE SCHEME WILL REACH ABOUT 72,000 WITHOUT CONSIDERING THE LIKELY POPULATION BUILD-UP ARISING FROM FUTURE GROWTH IN MINING AND TOURISM. IT IS EXPECTED THAT THE SETTLERS WILL CONTRIBUTE TO, AND SUBSTANTIALLY BENEFIT FROM THE ECONOMIC ACTIVITIES IN THE REGION. MOST OF THE SETTLERS MIGRATING INTO THE REGION WILL BE LOW-INCOME LANDLESS WORKERS, FISHERMEN, AND POOR SMALLHOLDERS. AFTER MIGRATION INTO THE AREA, THE INCOMES OF THE SETTLERS ARE EXPECTED TO INCREASE CONSIDERABLY. THE PROVISION OF SOCIO-ECONOMIC FACILITIES IN THE SCHEME WOULD GREATLY IMPROVE THE QUALITY OF LIFE OF THE SETTLERS.

15. USADB COMMENT: PROPOSED LOAN IS SIMILAR IN SIZE AND

OBJECTIVES TO THE SECOND PAHANG TENANGA REGIONAL
DEVELOPMENT PROJECT APPROVED IN NOVEMBER 1977. THE
DEVELOPMENT SCHEME FOR THE REGION WHICH WILL BE ASSISTED
BY THE PROPOSED ADB-ASSISTED SETTLEMENT-RELATED
INFRASTRUCTURE COMPONENTS, INCLUDE IMPORTANT OBJECTIVES
SUCH AS (I) LAND USE ALLOCATION BASED ON ECONOMIC, SOIL,
AND CLIMATIC CONSIDERATION; (II) A RESOURCE DEVELOPMENT
PROGRAM FOR AGRICULTURE, MOSTLY PALM OIL AND RUBBER,
ALTHOUGH INTENSIVE RESEARCH AND DEVELOPMENT PROJECTS OF
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PAGE 04 MANILA 10107 03 OF 04 160643Z

OTHER CROPS ARE CONTEMPLATED UNDER THE MASTER PLAN
UNDERTAKEN IN 1975; (III) A FORESTRY PROGRAM FOR PROCESSING

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PAGE 01 MANILA 10107 04 OF 04 160634Z

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FOR NAC AGENCIES

OF AGRICULTURAL AND FORESTRY PRODUCTS IN THE AREA. THE
PROPOSED ADB LOAN IS AIMED AT PROVIDING ONLY THE SOCIAL
INFRASTRUCTURE FOR THE EXPECTED INFLUX OF MIGRANTS AND
WILL NOT BE USED FOR DIRECTLY INCREASING PALM OIL
PRODUCTION. GIVEN THAT THE PROPOSED LOAN WILL BE USED
ENTIRELY FOR THE CREATION AND STRENGTHENING OF SOCIAL

INFRASTRUCTURE FOR THE LOWER INCOME GROUPS OF MALAYSIA
AND IS TECHNICALLY AND ECONOMICALLY FEASIBLE, USADB
RECOMMENDS FAVORABLE NAC ACTION.

16. REQUEST AMEMBASSY KUALA LUMPUR COMMENTS FOR NAC
AGENCIES, INFO USADB MANILA, PURSUANT TO STATE 119795
DATED 3 JULY 1972. WESTCOTT

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Review Event:
Review Exemptions: n/a
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Review Release Date: n/a
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Subject: PROPOSED LOAN - TRENGGANU TENGAH TOWNSHIP DEVELOPMENT PROJECT SUMMARY: ADB MANAGEMENT PROPOSING 16.0 MILLION DO
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